

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name CONSTRUCTION CODE AUTHORITY	County Lapeer
Audit Date 6/30/2004	Opinion Date 9/9/2004	Date Accountant Report Submitted to State: 9/29/2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | |
|------------------------------|--|---|
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

The letter of comments and recommendations.

Reports on individual federal financial assistance programs (program audits).

Single Audit Reports (ASLGU).

Enclosed	To Be Forwarded	Not Required
X		
		X
		X

Certified Public Accountant (Firm Name) BROWN & KENT, PC			
Street Address 951 S MIAN ST, SUITE #3		City LAPEER	State MI
Accountant Signature <i>Clark D Kent, CPA</i>		ZIP 48446	Date 9/29/04

**CONSTRUCTION CODE AUTHORITY
LAPEER, MICHIGAN**

**FINANCIAL REPORT WITH ADDITIONAL INFORMATION
FOR YEAR ENDED JUNE 30, 2004**

CONSTRUCTION CODE AUTHORITY

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BROWN & KENT, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board Members
Construction Code Authority
Lapeer, MI 48446

We have audited the accompanying financial statements of the business type activity and each major fund of Construction Code Authority ("CCA"), Lapeer, Michigan, as of and for year ended June 30, 2004. These financial statements are the responsibility of the CCA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to satisfy ourselves as to the accuracy of the deferred revenue in the accompanying Statement of Net Assets (stated at \$197,376), which may have an effect on the Inspection Fees revenue in the Statement of Revenues, Expenditures and Changes in Retained Earnings – Enterprise Fund.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had deferred revenue been susceptible to satisfactory audits tests, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activity and each major fund of Construction Code Authority, at June 30, 2004, and the respective changes in financial position and cash flows for year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, CCA has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information on pages III through VI and 14 through 15, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise CCA's basic financial statements. The accompanying other supplementary information, as identified, in the table of contents is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brown & Kent, P.C.

Certified Public Accountants

September 9, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSTRUCTION CODE AUTHORITY – LAPEER, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

As management of the Construction Code Authority, Lapeer County, Lapeer, Michigan (the “Authority”), we offer readers of the Authority’s financial statements this narrative overview and analysis of the Authority’s financial activities for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented herein in conjunction with the Authority’s financial statements.

Using this Annual Report

This discussion and analysis is intended to serve as an introduction to the Authority’s basic financial statements. The Authority’s basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. It also contains other supplemental information to provide a greater detail of the data presented in the basic financial statements.

Government-wide Financial Statements

Government-wide financial statements provide information about the activities of the Authority, presenting a broad long-term overview of the Authority’s finances, in a manner similar to a private-sector business. This longer-term view uses the accrual basis of accounting, so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Statement of Net Assets presents information on all of the Authority’s assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the Authority is improving or deteriorating.

The Statement of Activities presents information showing how the Authority’s net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The Statement of Net Assets and the Statement of Activities report the governmental activities for the Authority, which encompasses all of the Authority’s services

Reporting the Authority’s Most Significant Funds – Fund Financial Statements

The Authority’s fund financial statements provide detailed information about the most significant funds, not the Authority as a whole.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by State law.

These fund financial statements present a short-term view; they tell us how the Authority’s resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Authority’s operations in more detail than the government-wide financial statements by providing information about the Authority’s most significant funds.

All of the funds of the Authority can be divided into two categories:

- (1) Enterprise Funds – The Authority maintains one type of enterprise fund to account for its inspections services. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail.
- (2) Fiduciary Funds – The fiduciary fund statements provide financial information about activities for which the Authority acts solely as a trustee or agent for the benefit of those outside the government. Fiduciary funds are not reflected in the government-wide financial statements, because the resources of those funds are not available to support the Authority's own programs.

Notes to the Financial Statements

The notes that follow the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The Authority as a Whole

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position.

The following table shows, in a condensed format, the net assets as of June 30, 2004. Prior year information is not available, because this is the first year of the implementation of GASB Statement No. 34. Comparative data will be presented in future years.

Assets	
Current Assets	\$ 323,469
Capital Assets – Net of Depreciation	<u>785,626</u>
Total Assets	1,109,095
Liabilities	
Current Liabilities	308,901
Long Term Liabilities	<u>110,375</u>
Total Liabilities	419,276
Net Assets	
Invested in Capital Assets	632,267
Reserved	19,201
Unrestricted	<u>38,351</u>
Total Net Assets	<u>\$ 689,819</u>

The following table shows the changes of the net assets during the fiscal year ending June 30, 2004. Prior year information is not available, because this is the first year of the implementation of GASB No. 34. Comparative data will be presented in future years.

Revenue	
Program Revenues:	
Charges for Services	\$ 1,058,874
General Revenue	
Interest Income	4,047
Other Revenue	<u>1,605</u>
Total Revenue	1,064,526
Program Expenses	
Operating Expenses	1,004,881
Interest on Long Term Debt	<u>13,562</u>
Total Program Expenses	<u>1,018,443</u>
Change in Net Assets	<u>\$ 46,083</u>

The Authority's total governmental revenues, as reported in the Statement of Activities, totaled approximately \$1,058,000, up approximately \$64,000 from the prior fiscal year. \$22,000 of that increase is due to the rental of a portion of the Authority's building and the other \$42,000 is largely in part due to an increase in commercial activity. Total program expenses, as reported in the Statement of Activities, totaled approximately \$1,005,000, down approximately \$166,000 from the prior year. Some of the major expenses reduced were by eliminating both a full time and part time clerical position, eliminating a contract with an outsourced planner, and reimbursement of utilities from the rental of a portion of the building.

The Authority's Funds

The Authority uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Authority is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Authority's overall financial health. The analysis of the Authority's major funds begins on page 3, following the government-wide financial statements.

The Authority completed this year with a combined fund balance of \$689,819, an increase of \$46,083 from last year.

The Enterprise Fund accounts for most of the Authority's government services. The most significant are providing inspections, which include building, plumbing, mechanical, and electrical.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2004, the Authority had \$963,949 invested in broad range of capital assets, including land, buildings and equipment. This amount represents a net increase of \$33,683.

Land and Improvements	\$ 105,325
Buildings and Improvements	749,305
Equipment	<u>109,319</u>
Total Capital Assets	963,949
Less Accumulated Depreciation	<u>178,323</u>
Net Capital Assets	<u>\$ 785,626</u>

The major additions this year include an HVAC system for approximately \$11,000.

Debt Administration

As disclosed in Note 6 of the financial statements, the Authority has a land contract payable on their building totaling \$153,379, which is a decrease of \$29,444.

General Fund Budgetary Highlights

Over the course of the year, the Authority amended the budget to take into account events during the year, which included an increase in inspection income due to commercial activity.

Economic Factors and Next Year's Budget

We anticipate, as indicated by the strength of the construction segment and building permits issued in the last few years, for our activities to continue. Next years budget anticipates a net increase in the net assets of approximately \$1,100.

The Authority is currently trying to rent out additional vacant space in their building to supplement the building expenditures by generating rental income and reimbursement of utilities associated with that portion of the building.

The budget allows the Authority to fill a general manager position to help oversee all activities including inspections, general administration, and public relations.

The Authority had added an ordinance enforcement officer within the budget

Contacting the Authority's Management

This financial report is intended to provide our clients, customers and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the financial administrators office at 1075 Suncrest Drive, Lapeer, MI 48446.

BASIC FINANCIAL STATEMENTS

CONSTRUCTION CODE AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2004

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 295,207
Receivables	
Accounts	7,612
Interest	205
Prepaid Expense	20,445
Total Current Assets	<u>323,469</u>

Non-current Assets

Capital Assets	963,949
Less: Accumulated Depreciation	<u>(178,323)</u>
Total Non-current Assets	<u>785,626</u>

TOTAL ASSETS	<u>\$ 1,109,095</u>
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LIABILITIES

Current Liabilities

Accounts Payable	\$ 8,163
Accrued Expenses	24,390
Compensated Absences	21,968
Deposits	14,000
Deferred Revenue	197,376
Current Portion of Long-term Debt	43,004
Total Current Liabilities	<u>308,901</u>

Non-current Liabilities

Long-term Portion of Long-term Debt	<u>110,375</u>
Total Non-current Liabilities	<u>110,375</u>

TOTAL LIABILITIES	419,276
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Net Assets

Invested in Capital Assets Net of Related Debt	632,267
Reserved	19,201
Unreserved	38,351
Total Net Assets	<u>689,819</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,109,095</u>
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The accompanying notes are an integral part of the financial statements.

**CONSTRUCTION CODE AUTHORITY
STATEMENT OF ACTIVITIES
FOR YEAR ENDED JUNE 30, 2004**

FUNCTIONS/PROGRAMS ENTERPRISE ACTIVITIES	EXPENSES	PROGRAM REVENUES		ENTERPRISE ACTIVITIES NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS	
Operating	\$ 1,004,881	\$ 1,058,874	\$ -	\$ 53,993
Interest on Long-term Debt	13,562	-	-	(13,562)
TOTAL ENTERPRISE ACTIVITIES	1,018,443	1,058,874	-	40,431
GENERAL REVENUES				
Interest Income				4,047
Other				1,605
TOTAL GENERAL REVENUES				5,652
CHANGE IN NET ASSETS				46,083
NET ASSETS BEGINNING OF YEAR				643,736
END OF YEAR				\$ 689,819

The accompanying notes are an integral part of the financial statements.

**CONSTRUCTION CODE AUTHORITY
BALANCE SHEET
JUNE 30, 2004**

	<u>ENTERPRISE FUND</u>
ASSETS	
Cash and Cash Equivalents	\$ 295,207
Receivables	
Accounts	7,612
Interest	205
Prepaid Expense	20,445
Fixed Assets (Net)	<u>785,626</u>
 TOTAL ASSETS	 <u><u>\$ 1,109,095</u></u>
LIABILITIES AND EQUITY	
Accounts Payable	\$ 8,163
Accrued Expenses	24,390
Compensated Absences	21,968
Deposits	14,000
Deferred Revenue	197,376
Contracts and Loans Payable	<u>153,379</u>
 TOTAL LIABILITIES	 <u>419,276</u>
EQUITY AND OTHER CREDITS	
Contributed Capital	46,120
Retained Earnings	
Reserved – Unemployment Benefits	19,201
Unreserved and Undesignated	<u>624,498</u>
 TOTAL EQUITY AND OTHER CREDITS	 <u>689,819</u>
 TOTAL LIABILITIES AND EQUITY AND OTHER CREDITS	 <u><u>\$ 1,109,095</u></u>

The accompanying notes are an integral part of the financial statements.

CONSTRUCTION CODE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
RETAINED EARNINGS – ENTERPRISE FUND
FOR YEAR ENDED JUNE 30, 2004

OPERATING REVENUES

Inspection Fees	
Building	\$ 351,535
Plumbing	141,228
Mechanical	183,623
Electrical	175,378
Total Inspection Fees	<u>851,764</u>

Plan Review Fee	
Building	22,554
Plumbing	2,643
Mechanical	2,922
Electrical	2,711
Total Plan Review Fees	<u>30,830</u>

General Revenues	
Fire Prevention	7,310
Rental Fees	64,780
Zoning	28,491
Ordinance Enforcement	24,245
Addressing	11,374
Rental Income	22,300
Other	19,385
Total General Revenues	<u>177,885</u>

TOTAL REVENUES 1,060,479

OPERATING EXPENSES 1,004,881

OPERATING INCOME (LOSS) 55,598

NON-OPERATING REVENUES AND EXPENSES

Investment Income	4,047
Interest Expense	(13,562)
TOTAL NON-OPERATING REVENUES AND EXPENSES	<u>(9,515)</u>

NET INCOME (LOSS) 46,083

RETAINED EARNINGS – BEGINNING OF YEAR 643,736

RETAINED EARNINGS – END OF YEAR \$ 689,819

The accompanying notes are an integral part of the financial statements.

**CONSTRUCTION CODE AUTHORITY
STATEMENT OF CASH FLOWS – ENTERPRISE FUND
FOR YEAR ENDED JUNE 30, 2004**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 1,150,015
Receipts from Rental Activity	32,300
Payments to Suppliers	(286,200)
Payments to Employees	(677,927)
Internal Activity – Payments from (to) Other Funds	(58,800)
Net Cash Provided By (Used In) Other Funds Operating Activities	159,388
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets	(12,375)
Principal and Interest Paid on Capital Debt	<u>(43,005)</u>
Net Cash Provided By (Used In) Capital and Related Financing Activities	(55,380)
CASH FLOWS FROM INVESTING ACTIVITIES – Interest Received on Investments	<u>4,725</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	108,733
CASH AND CASH EQUIVALENTS – Beginning of Year	<u>186,474</u>
CASH AND CASH EQUIVALENTS – End of Year	<u><u>\$ 295,207</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES	
Operating Income	\$ 55,598
Adjustments to reconcile net income to net cash provided (used) by operating Activities:	
Depreciation	46,058
(Increase) Decrease In:	
Receivable	29,019
Prepaid Expense	(2,230)
Due from Other Funds	200
Increase (Decrease) In:	
Payable	(3,036)
Accrued Expenses	4,197
Compensated Absences	(4,235)
Deposits	10,000
Deferred Revenue	82,817
Due to Other Funds	<u>(59,000)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u><u>\$ 159,388</u></u>

The accompanying notes are an integral part of the financial statements.

**CONSTRUCTION CODE AUTHORITY
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2004**

	<u>TRUST & AGENCY FUND</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 91,596</u>
TOTAL ASSETS	<u><u>\$ 91,596</u></u>
 LIABILITIES	
Deposits	<u>\$ 91,596</u>
TOTAL LIABILITIES	<u><u>\$ 91,596</u></u>

The accompanying notes are an integral part of the financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

**CONSTRUCTION CODE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Construction Code Authority (“CCA”), Michigan, established in 1983, is a governmental entity created under the constitution and statutes of the State of Michigan. Located in Lapeer, the CCA operates under an elected board, which consists of a chairman, vice chairman, secretary/treasurer, and two trustees. The CCA is contracted by numerous governmental units to provide inspections in various areas, including building, plumbing, mechanical, and electrical. Ownership is vested in cities, villages and townships, all of which are located in the counties of Lapeer, Genesee, and St. Clair, Michigan.

The accounting and reporting policies of the CCA, conform to accounting principles generally accepted in the United States of America applicable to state and local governments. The more significant accounting policies of CCA are described below.

A. REPORTING ENTITY

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that financial statements are not misleading. The primary government of the CCA consists of all funds, departments, boards, and agencies that are not legally separate from the CCA.

B. IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

For fiscal year 2004, the CCA has implemented GASB Statement No. 34 (GASB 34), “Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments,” GASB Statement No. 37 (GASB 37), “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus” and GASB Statement No. 38 (GASB 38), “Certain Financial Statement Disclosures.” At July 1, 2003, there was no effect on fund balance as a result of implementing GASB 37 and GASB 38.

GASB 34 creates new basic financial statements for reporting on the CCA’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

The beginning net asset amount for governmental activities reflects fund balance for governmental funds at July 1, 2003, adjusted for the conversion to the accrual basis of accounting.

As a result of implementing GASB 34, the previously reported retained earnings reconciles to net assets of the governmental activities without any reconciling items.

C. BASIS OF PRESENTATION

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The CCA’s basic financial statements include both government-wide (reporting the CCA as a whole) and fund financial statements (reporting the CCA’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the CCA’s activities are classified as business type activities. Fiduciary funds are not included in the government-wide financial statements.

**CONSTRUCTION CODE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. BASIS OF PRESENTATION (Continued)

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS (Continued)

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The CCA's net assets are reported in three parts; (1) invested in capital assets net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The CCA first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the CCA's functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The costs by function are normally covered by charges to customers.

FUND FINANCIAL STATEMENTS:

The CCA segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current financial resources. The CCA has presented the following major governmental funds:

Enterprise Fund – This fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. This is the CCA's major fund.

Trust and Agency Fund – This fund is used to account for the collection and disbursement of performance and other deposits payable.

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured, basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

**CONSTRUCTION CODE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING (Continued)

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The revenues susceptible to accrual are franchise fees, licenses, charges for service, and interest income. All other Governmental Fund Type revenues are recognized when received.

E. BUDGETS AND BUDGETARY ACCOUNTING

The CCA Board follows these procedures in establishing the budgetary data reflected in the financial statements:

- (1) Prior to the beginning of the fiscal year, the board proposes an operating budget for each budgetary fund. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year. State statute requires that the budget be submitted in summary form. Also, more detailed line item budgets are included for administrative control.
- (2) The budgets are adopted by a majority vote of the CCA Board.
- (3) Formal budgetary integration is employed as a management control device during the year.
- (4) Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Amendments to the Budget are approved by the CCA Board, as necessary.

F. CASH EQUIVALENTS

The CCA considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

G. INVESTMENTS

All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

**CONSTRUCTION CODE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. DEFERRED REVENUE

Deferred revenue arises in governmental funds when revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. In enterprise funds, this arises when resources are received by the government before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. Deferred revenue amounted to \$197,376, which is due to open permits that have inspections to be completed but have been paid for.

I. INTERFUND TRANSACTIONS

Legally authorized transfers are treated as interfund transfers and are included in the results of operations.

J. CAPITAL ASSETS

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated Assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant, and equipment.

Assets capitalized have an original cost of \$1,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and Improvements	20-50 years
Equipment	5-10 years
Land Improvements	20 years

K. NET ASSETS

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the CCA or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

L. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

M. ACCUMULATED UNPAID BENEFITS

The CCA allows employees to accumulate vacation or sick time from year to year. The liability for the accumulated vacation and sick time is reflected in the financial statements as “Compensated Absences.”

**CONSTRUCTION CODE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 2 – CASH AND EQUIVALENTS AND INVESTMENTS

CASH AND EQUIVALENTS

A summary of cash and equivalents as of June 30, 2004 follows:

	<u>Carrying Value</u>	<u>Bank Balance</u>	<u>Covered By FDIC Insurance</u>
Demand Deposits	\$ 186,498	\$ 192,033	\$ 109,517
Petty Cash	300	-	-
Certificate of Deposit	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>
	<u>\$ 386,798</u>	<u>\$ 392,033</u>	<u>\$ 309,517</u>

Bank balance does not reflect deposits in transit or outstanding checks.

FDIC Regulation Number 330.8 provides that deposits of a governmental unit are insured for the lesser of the amount of the combined deposit or \$100,000, in every financial institution that is not a branch location and that is a member of FDIC in the following deposit accounts:

- (1) All demand, non-interest bearing accounts (checking), in the name of the authorized or statutory custodian (treasurer) of public funds.
- (2) All savings deposits which include regular passbook, daily interest savings, and time certificates of deposit in the name of the governmental unit's custodian.

NOTE 3 – RETIREMENT PLAN

In lieu of social security, the CCA has established a defined contribution pension plan, which covers substantially all of the employees, that is administered through an insurance company. Eligibility for the plan requires 12 months of service and a minimum age of 18 years and a maximum age of 75 years. The annual contribution of the plan is equal to 15% of an employee's annual compensation up to \$40,000 in earnings. The employer contributes 50% of the annual contribution for the plan's first year and the employee contributes 50%. The employer contributions graduate each year thereafter up to a maximum of a full 15%. During the year ended June 30, 2004, the CCA contributed \$45,852 to the plan.

**CONSTRUCTION CODE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows:

	Balance 7-01-03	Additions	Deletions	Balance 6-30-04
Capital Assets Not Being Depreciated				
Land	\$ 100,000	\$ -	\$ -	\$ 100,000
Total Capital Assets Not Being Depreciated	100,000	-	-	100,000
Capital Assets Being Depreciated				
Land Improvements	4,240	1,085	-	5,325
Building and Improvements	737,995	11,310	-	749,305
Equipment	109,319	-	-	109,319
Total Capital Assets Being Depreciated	851,554	12,395	-	863,949
Less Accumulated Depreciation For				
Land Improvements	707	337	-	1,044
Building and Improvements	76,549	30,204	-	106,753
Equipment	55,009	15,517	-	70,526
Total Accumulated Depreciation	132,265	46,058	-	178,323
Total Capital Assets Being Depreciated, Net	719,289	(33,663)	-	685,626
Total Government Assets, Net	\$ 819,289	\$ (33,663)	\$ -	\$ 785,626

Depreciation expense was \$46,058 for the year ended June 30, 2004, and was charged as direct expense to operating expenses.

NOTE 5 – LONG-TERM DEBT

On June 26, 2000, CCA entered into a contract, incident to the purchase of real estate, to pay to the seller of the real estate \$375,000 in monthly installments of \$3,584, including interest at 9.0% through July 2009. The seller, as security for the debt, holds title until the contract is paid in full.

The annual requirements to amortize the debt including interest payments are as follows:

Year Ending June 30	Principal	Interest	Total
2005	\$ 31,886	\$ 11,118	\$ 43,004
2006	34,533	8,471	43,004
2007	37,399	5,605	43,004
2008	40,503	2,501	43,004
2009	9,057	111	9,168
TOTAL	\$ 153,378	\$ 27,806	\$ 181,184

CONSTRUCTION CODE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 6 – OPERATING LEASES

Effective July 1, 2003, the CCA entered into an agreement to rent a portion of their building located at 1075 Suncrest Drive, Lapeer, Michigan, for a period of three years. The lease expires on June 30, 2006, with an option to renew for two additional years. The following is a summary of annual minimum future rentals “scheduled” or anticipated to be received on the lease in excess of one year as of June 30, 2004

6-30-05	\$	22,300
6-30-06		<u>22,300</u>
	\$	<u>44,600</u>

NOTE 7 – RISK MANAGEMENT

The CCA is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The CCA carries commercial insurance for risks to cover these losses. The CCA also continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

NOTE 8 – CONTINGENT LIABILITY

The CCA is involved in various legal actions arising in the normal course of business. In the opinion of the CCA Board, such matters will not have a material effect upon the financial position of the CCA.

REQUIRED SUPPLEMENTAL INFORMATION

**CONSTRUCTION CODE AUTHORITY
BUDGETARY COMPARISON SCHEDULE – ENTERPRISE FUND
FOR YEAR ENDED JUNE 30, 2004**

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
OPERATING REVENUES				
Inspection Fees				
Building	\$ 371,000	\$ 432,000	\$ 351,535	\$ (80,465)
Plumbing	130,400	132,500	141,228	8,728
Mechanical	169,150	183,000	183,623	623
Electrical	142,800	172,000	175,378	3,378
Total Inspection Fees	813,350	919,500	851,764	(67,736)
Plan Review Fees				
Building	15,200	21,000	22,554	1,554
Plumbing	2,800	3,100	2,643	(457)
Mechanical	2,400	3,500	2,922	(578)
Electrical	2,400	2,400	2,711	311
Total Plan Review Fees	22,800	30,000	30,830	830
General Revenues				
Fire Prevention	4,500	6,700	7,310	610
Rental	65,000	65,000	64,780	(220)
Zoning	24,200	24,200	28,491	4,291
Ordinance Enforcement	27,000	23,000	24,245	1,245
Addressing	12,000	10,000	11,374	1,374
Rental Income	-	-	22,300	22,300
Other	19,650	17,900	19,385	1,485
Total General Revenues	152,350	146,800	177,885	31,085
TOTAL OPERATING REVENUES	988,500	1,096,300	1,060,479	(35,821)
OPERATING EXPENSES				
Salaries				
Inspectors	422,684	462,534	463,890	(1,356)
Administrative/Office	215,690	211,254	202,002	9,252
Board	6,700	7,500	7,800	(300)
Benefits				
Deferred Compensation	10,348	11,598	11,608	(10)
Health Insurance	47,736	47,736	46,355	1,381
Life Insurance	2,353	2,353	2,509	(156)
Pension	46,324	46,324	45,852	472
Board Secretary	1,400	1,400	1,125	275
Capital Outlay	1,000	13,120	725	12,395
Computer Expenses	24,500	27,700	27,225	475
Contract Services	6,551	7,051	7,031	20
Depreciation	-	-	46,058	(46,058)
Equipment Rental	10,000	10,000	10,076	(76)

**CONSTRUCTION CODE AUTHORITY
BUDGETARY COMPARISON SCHEDULE – ENTERPRISE FUND
FOR YEAR ENDED JUNE 30, 2004**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
OPERATING EXPENSES				
(Continued)				
Insurance				
Disability	\$ 4,629	\$ 5,947	\$ 6,245	\$ (298)
Errors & Omissions	7,677	8,606	7,738	868
General	2,360	2,670	2,382	288
Liability	7,577	8,606	7,738	868
Workers' Compensation	6,843	6,946	6,558	388
Janitorial Services	9,500	9,500	9,480	20
Lab Work	-	1,000	1,065	(65)
Legal & Professional	14,500	23,250	21,680	1,570
Miscellaneous	14,300	7,280	3,151	4,129
Office Supplies	12,100	11,000	9,465	1,535
Operating Supplies	5,450	6,500	5,847	653
Payroll Taxes	34,189	18,854	18,780	74
Repairs & Maintenance	9,660	6,500	5,037	1,463
Telephone	16,000	13,800	10,899	2,901
Utilities	19,410	17,500	16,560	940
	<u>959,481</u>	<u>996,529</u>	<u>1,004,881</u>	<u>(8,352)</u>
TOTAL OPERATING EXPENSES				
OPERATING INCOME	29,019	99,771	55,598	(44,173)
NON-OPERATING REVENUES AND EXPENSES				
Interest Income	3,500	4,720	4,047	(673)
Interest Expense	<u>(13,000)</u>	<u>(13,560)</u>	<u>(13,562)</u>	<u>(2)</u>
TOTAL NON-OPERATING REVENUES AND EXPENSES	<u>(9,500)</u>	<u>(8,840)</u>	<u>(9,515)</u>	<u>(675)</u>
NET INCOME	19,519	90,931	46,083	(44,848)
RETAINED EARNINGS –				
Beginning of Year	<u>643,736</u>	<u>643,736</u>	<u>643,736</u>	<u>-</u>
RETAINED EARNINGS –				
End of Year	<u>\$ 663,255</u>	<u>\$ 734,667</u>	<u>\$ 689,819</u>	<u>\$ (44,848)</u>

BROWN & KENT, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

951 S. MAIN STREET, SUITE #3

LAPEER, MICHIGAN 48446

(810) 664-4470

FAX (810) 664-3601

September 15, 2004

Board of Directors
Construction Code Authority
1075 Suncrest Drive
Lapeer, MI 48446

Dear Board Members:

We have completed our audit of the financial statements for Construction Code Authority for the year ended June 30, 2004. As a result of our audit, and in addition to our financial report, we offer the following comments and recommendations for your review and consideration. These items have been discussed with your administration.

DEFERRED REVENUE

Due to inadequacies in your computer system for permits, we were unable to satisfy ourselves as to the validity of your deferred revenue (stated at \$197,000 on your balance sheet). We observed a report titled "PIR Detail" which lists open permits, how many inspections are expected on the permit, and how many inspections were actually completed. We tested a random sample of the open permits listed on this report. We found some discrepancies in what the report was generating and the actual details of the permit, including number of inspections performed on each permit.

We are recommending that this report be investigated for every open inspection, and corresponding adjustments be made based on this investigation. Then, continual monitoring of this report should be done to ensure accuracy.

DOCUMENTATION OF POLICIES

In going through the permits, as referenced above, there was some confusion about refunding a permit. We recommend the board adopt specific policies stating what the procedures are for refunding a permit, what the procedures are for renewing a permit including fees or violations, and what procedures need to be followed up to termination.

BOND REFUNDS

Construction Code Authority is in the process of returning bonds previously collected. Proper documentation supporting these refunds should be referenced in the check register and filed with the permit file. Such documentation would include computer printouts from the inspection system, request signature by individual requesting refund, and approval by the Code Official.

COMPUTER PRINTING OF CHECKS

Your accounting software has the ability to print computer-generated checks. Currently the payroll checks and the trust and agency checks utilize this feature, but all other checks are type written. We feel this procedure weakens your system of internal controls and therefore recommend utilizing the program to print out all checks. Typing a check and then recording it into the system leaves room for errors or discrepancies.

AUTHORIZED SIGNORS OF CHECKS

Your procedures currently require two people to sign all checks, which is an important part of segregating duties. At your annual organization meeting, the board should list and approve all individuals authorized to sign checks and document it in your board minutes.

NUMERICAL LOG OF CASH RECEIPTS

As part of our testing, we tested your procedures of cash receipts. The person opening the mail and receiving cash from customers should keep a numerical log of cash receipts, documenting whether it is cash or check.

PETTY CASH

Current practice is to write checks payable to "Cash" when you replenish your petty cash fund. We suggest writing them to your financial administrator. This will help safeguard the checks on route to be cashed if they were to be lost.

We would like to thank Joanne Watson, Jim Hershberger, and the office staff for the courtesy and assistance extended to us during our audit. We would be happy to answer any questions you have regarding the annual financial report, and would be pleased to discuss the above comments and recommendations at your convenience.

Brown & Kent, P.C.

Certified Public Accountants

September 15, 2004